

The
Economist

Investing in frontier markets

Fishy tale

The story of a dollar-bond issue in Mozambique is a parable of easy money

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A DESPERATE search for bonds that pay a decent rate of interest and a keen desire for exposure to economies that are still growing quickly have taken rich-world investors to some exotic places. The raciest bets are made in so-called frontier markets, poorer places with even less mature financial sectors than emerging markets. Africa is full of them. Rwanda and Tanzania, for example, have found willing buyers this year for their debut issues of dollar-denominated bonds. The farthest edge of the investing frontier has now reached Mozambique.



Fred Hoogervorst

A bankable business

In September Credit Suisse and BNP Paribas raised \$500m on behalf of EMATUM, a state-owned company in Mozambique. Credit Suisse advanced the \$500m; slices of the debt were then sold as loan-participation notes, maturing in 2020, at a yield of 8.5%. VTB, a Russian bank, raised a further \$350m for EMATUM shortly afterwards. Such a deal can be done more quickly and with less fuss than a typical bond issue. VTB had already raised \$1 billion for Angola in a similar fashion. Those notes are included in J.P. Morgan's emerging-market

bond index, an industry benchmark.

The concern is less about the way the money was raised than how it will be used.

Mozambique is poor. Its budget is part-funded by grants and low-interest loans from rich countries. Its public finances were solid in part because it has been granted extensive debt relief. When such countries borrow in private markets, it is usually to fund projects, such as toll roads, airports or power stations, which might have broad enough benefits to justify the expense. But EMATUM is a tuna-fishing venture that came into being just a few weeks before the \$850m was raised in its name.

It is not obvious that a state-run fishing startup is a compelling business proposition. But investors know there are huge gas reserves off the shores of Mozambique that will eventually bring in lots of foreign exchange, even if tuna does not. The bonds come with a guarantee from the finance ministry. And the handsome yield (far higher than the rate on comparable Treasury bonds) is some reward for the risks.

A French shipyard has received orders worth about \$300m for two dozen fishing vessels and a handful of patrol boats. It is not yet clear what the rest of the money, which is accruing hefty interest, will be used for. What is clear is that the temptation to grab at easy money offered by yield-hungry investors is proving too great to resist for some countries. As usual, the role of party-pooper has fallen to the IMF. It has called for the cost of the guarantee and for “possible non-commercial activities” related to the EMATUM bond to be clarified in the next budget.

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